

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

7 MARCH 2018
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TEN** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. When you join the local organic food market and then buy the produce each month, money is used as _____.
 - A. only a unit of account
 - B. a store of value and a unit of account
 - C. a medium of exchange and a store of value
 - D. a medium of exchange and a unit of account
2. If Robin deposits RM300 in currency into his savings account at Maybank, _____.
 - A. M1 decreases
 - B. M1 does not change
 - C. M2 increases
 - D. M1 and M2 both increase
3. Which of the following statements is **CORRECT**?
 - i. The central bank can periodically and without warning examine member commercial banks to ensure that they are conforming to current banking standards.
 - ii. The central bank helps the government collect certain tax revenues and aids in the purchase and sale of government securities.
 - A. i only
 - B. ii only
 - C. Both i and ii
 - D. Neither i nor ii
4. When the central bank conducts an open market purchase, the first round changes in the money creation process are that excess reserves _____, bank deposits _____, and the quantity of money _____.
 - A. decreases; decreases; decrease
 - B. decreases; increases; does not change
 - C. do not change; increases; increase
 - D. increase; increase; increases
5. Which of the following reduces the money multiplier?
 - A. banks loan all their excess reserves
 - B. bank customers hold some of the loan proceeds as currency outside the banking system
 - C. the central bank reduces the required reserve ratio
 - D. the central bank sells government securities

Continued...

6. Whenever somebody deposits a check from bank A into a checkable deposit at bank B, bank A's reserves _____ and bank B's reserves _____.
A. increase; decrease
B. increase; increase
C. decrease; decrease
D. decrease; increase
7. Joshua has been thinking about purchasing a bond but he is afraid that the bond will lose value. He has decided to hold money instead. This is known as the _____.
A. precautionary demand for money
B. transactions demand for money
C. speculative demand for money
D. money balance demand for money
8. The central bank would be pursuing a contractionary monetary policy if it was _____.
A. lowering the discount rate
B. lowering the reserve requirement
C. selling dollars in foreign exchange markets
D. selling bonds in the open market
9. An increase in bond prices is usually accompanied by _____.
A. an increase in interest rates
B. a decrease in the quantity demanded for money
C. an increase in the quantity demanded for money
D. an increase in the opportunity cost of holding money
10. Which of the following would be considered unemployed as part of normal labour market turnover?
i. Julie, who was fired when the company where she worked went bankrupt in a recession.
ii. Hannah, who quit her job to find one that better suited her skills.
iii. Charlie, who started looking for a job upon graduation from high school.
A. ii and iii
B. i and ii
C. i, ii and iii
D. i and iii
11. Discouraged workers who are over 16 years old are _____.
i. not counted as unemployed
ii. part of the working-age population
iii. part of the labour force
A. i only
B. i and ii
C. ii and iii
D. i, ii, and iii

Continued...

12. If the number of people in the labour force _____, then _____.
- A. increases; the labour force participation rate increases
 - B. increases; the unemployment rate definitely increases
 - C. decreases; the unemployment rate definitely decreases
 - D. decreases; the labour force participation rate increases

Refer to *Exhibit 1* for question no.13.

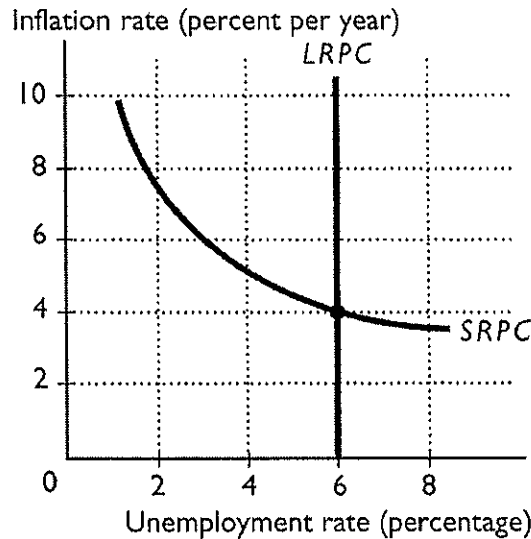


Exhibit 1

13. Refer to *Exhibit 1*. The natural unemployment rate is _____.
- A. 2 percent
 - B. 4 percent
 - C. 6 percent
 - D. 8 percent
14. Because the inflation rate is so high, Wanie refuses to carry cash. Even though it is a bother, she now goes to the ATM twice as often to get the cash she needs. Wanie's actions are an example of the _____.
- A. shoe-leather costs of inflation
 - B. menu costs of inflation
 - C. confusion costs of inflation
 - D. uncertainty costs of inflation
15. In the current year, the CPI is 122 and during the previous year the CPI was 115. The inflation rate between these years is _____.
- A. 5.7 percent
 - B. 6.1 percent
 - C. -6.1 percent
 - D. 1.61 percent

Continued...

16. If the bank returns RM1,060 on the RM1,000 deposited for a year during which inflation was 4 percent, the real interest rate is _____.
A. 6 percent
B. 10 percent
C. -2 percent
D. 2 percent
17. If the world price of a good is below the no-trade domestic price, a country _____.
A. will benefit from exporting the good
B. will benefit from importing the good
C. will not engage in trade for that good
D. has a comparative advantage in the production of that good
18. The consumption possibilities curve shows the combinations of goods that can be _____.
A. consumed by a nation before trade begins
B. consumed by a nation after trade begins
C. produced by a nation before trade begins
D. produced by a nation after trade begins
19. Assume that U.S. producers can manufacture cookies at a lower opportunity cost than Canadian producers. If this is the case, _____.
A. it will not be possible for Canada to have comparative advantage in the production of any other products
B. Canada could still have the comparative advantage in cookie production
C. it would still be possible for Canada to have a comparative advantage in trade for some other products
D. Canada would have the comparative advantage in all products compared to the United States
20. Suppose that the opportunity cost of producing goods differs between two nations. We can correctly state that _____.
A. each nation should produce all goods
B. the two nations should not specialise in the production of goods
C. specialisation can lead to an increase in the production of all goods
D. neither country has a comparative advantage in the production of any good
21. An import quota specifies _____.
A. the amount of funds that can be paid for any imported good
B. the amount of taxes that must be paid on any imported good
C. the maximum amount of an item that may be imported during a specified period
D. the minimum amount of an item that may be imported during a specified period

Continued...

22. When a good is imported, the domestic production of it _____ and the domestic consumption of it _____.
A. increases; increases
B. increases; decreases
C. decreases; increases
D. decreases; decreases
23. The current account is the record of _____.
A. a nation's international trading, borrowing, and lending
B. changes in the government's holdings of foreign currency
C. foreign investment in the nation minus the nation's investment abroad
D. payments for imports, receipts for exports, net interest, and net transfers
24. When a German company purchases a U.S. company for \$20 million, in the U.S. balance of payments, the value of that transaction is recorded in the _____.
A. purchase account
B. current account
C. capital account
D. official purchases account
25. When the official reserves _____, the official settlements account balance becomes negative and when the official reserves _____, the official settlements account balance becomes positive.
A. decrease; decrease
B. decrease; increase
C. increase; decrease
D. increase; increase
26. The _____ always equals zero.
A. sum of current account and capital account
B. sum of current account and official settlements account
C. sum of capital account and official settlements account
D. sum of current account, capital account and official settlements account
27. When the exchange rate between the U.S. dollar and the euro changes from 1.07 euros per dollar to 0.93 euros per dollar, then the _____.
A. euro has depreciated against the U.S. dollar
B. U.S. dollar has depreciated against the euro
C. euro has depreciated against the euro
D. U.S. dollar has depreciated against the U.S. dollar
28. Everything else remain the same, in the foreign exchange market, which of the following increases the demand for U.S. dollars and shifts the demand curve rightward?
A. The Japanese interest rate rises.
B. The expected value of the U.S. dollar falls.
C. The U.S. interest rate rises.
D. The U.S. exchange rate rises.

Continued...

29. In a fixed exchange rate system, a decrease in the exchange rate at which a currency is pegged is called a(n) _____.
A. appreciation
B. devaluation
C. revaluation
D. depreciation
30. When the economy experiences a balance of payments surplus, the central bank must _____ to maintain the exchange rate.
A. buy foreign currency
B. sell bonds
C. buy home currency
D. sell foreign currency

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Suppose Bank of Commerce has assets that composed of reserves equals RM200,000 and loans amounting to RM1.8 million. The bank exactly satisfies its reserves requirement, and it holds no excess reserves. Assume that, Bank of Commerce's only liabilities are checkable deposits.

- Prepare a balance sheet for the Bank of Commerce based on the above information.
(2 marks)
- If the required reserve ratio is 5 percent, how much in excess reserves does the bank hold?
(4 marks)
- Calculate the maximum amount of new loan that Bank of Commerce can make.
(1 mark)
- If the bank can loan out as much as it can, show the new balance sheet for the Bank of Commerce.
(2 marks)
- Calculate value of the money multiplier.
(1 mark)
- How much money would be created in the banking system if other banks also lend as much as possible?
(2 marks)

Continued...

Part B

Exhibit 2 shows money demand schedule in millions of dollars.

Nominal interest rate (percent per year)	Quantity of money demanded (millions of dollars)
8	0.7
6	0.9
4	1.1
2	1.3

Exhibit 2

Based on *Exhibit 2*, answer the following questions.

- If the central bank supplies \$1.1 million, what would be the equilibrium nominal interest rate?
(1 mark)
- Explain how equilibrium would be restored if the interest rate is 8 percent per year.
(2 marks)
- Suppose that changes in bank regulations expand the availability of credit cards, so that people need to hold less cash. If the central bank does not respond to this event, explain with diagram, what will happen to the equilibrium interest rate?
(5 marks)

Part C

Suppose that the statistics for Country X's population were as given in *Exhibit 3*.

Category	Number of workers
Population	4,000,000
Population (ages 16 and older)	2,000,000
Employed	1,450,000
Not in the labour force	100,000

Exhibit 3

Based in *Exhibit 3*, calculate the

- number of workers in the labour force.
(2 marks)
- number of unemployed workers.
(2 marks)
- unemployment rate.
(2 marks)
- labour force participation rate.
(2 marks)
- unemployment rate, if 50,000 unemployed workers become "discouraged" and decide to stop looking for work?
(2 marks)

[TOTAL 30 MARKS]

Continued...

Question 2**Part A**

Consider two countries, Mexico and the United States, each capable of producing peanuts and corns. Assume that for a given amount of inputs, the production possibilities for these two countries are as shown in *Exhibit 4*.

Mexico		United States	
Peanut (in tonnes)	Corn (in tonnes)	Peanut (in tonnes)	Corn (in tonnes)
0	40	0	40
5	30	10	30
10	20	20	20
15	10	30	10
20	0	40	0

Exhibit 4

- Calculate the opportunity cost of producing peanut for each country?
(3 marks)
- Calculate the opportunity cost of producing corn for each country?
(3 marks)
- Which country has a comparative advantage in producing peanut? Which country has a comparative advantage in producing corn? Briefly explain.
(3 marks)
- Suppose the terms of trade for each tonne of corn is 0.75 ton of peanut. If each country specialises in the good for which it has comparative advantage, and they exchange 24 tonnes of corn for some tonnes of peanut, compute the consumption bundles of corn and peanut (in tonnes) for each country.
(2 marks)

Part B

Suppose China allows trade in steel and the world price of steel is lower than the domestic price of steel in China.

- If we assume that China is a price taker in the steel market, will China import or export steels?
(1 mark)
- Using a diagram, show China's
 - consumer surplus before and after trade.
 - producer surplus before and after trade.
 - total surplus before and after trade
(6 marks)
- Determine who wins and losses in China as a result of the steel trade. Does China better off after trade? Briefly explain.
(2 marks)

[TOTAL 20 MARKS]**Continued...**

Question 3**Part A**

Exhibit 5 describes the international transactions of the U.S. in year 2010.

Item	\$ (million)
Merchandise exports	200
Services (exports)	40
U.S. investment abroad	15
Statistical discrepancy	-16
Income from U.S. assets abroad	8
Foreign investment in the U.S.	25
Increase in U.S. official reserve assets	3
Income from foreign assets in U.S.	10
Decrease in foreign official reserve assets in the U.S.	2
Merchandise imports	205
Services (imports)	17
Net unilateral transfers	-9

Exhibit 5

Based on **Exhibit 5**, calculate

- merchandise trade balance. (1.5 marks)
- current account balance. (4 marks)
- capital account balance. (1.5 marks)
- the official reserve balance. (1.5 marks)
- balance of payments. (2.5 marks)

Part B

Exhibit 6 shows units of Malaysia ringgit per unit of foreign currency in January and June 2010.

Foreign currency	January	June
1 US dollar	3.47	3.56
1 British pound	5.29	5.00

Exhibit 6

- Between January and June 2010, did US dollar appreciate or depreciate against Malaysia ringgit? Briefly explain. (2 marks)
- Calculate the units of British pound per Malaysia ringgit in January and June, 2010. (3 marks)

Continued...

- c) Between January and June 2010, did Malaysia ringgit appreciate or depreciate against British pound. Briefly explain.
(2 marks)
- d) In January 2010, Ahmed bought a pair of Nike sneakers for RM250. Calculate the costs of these sneakers in US dollar.
(2 marks)

[TOTAL 20 MARKS]

End of Paper